

AUDIT COMMITTEE

WEDNESDAY 8 JUNE 2022

The meeting was live streamed and can be viewed here;

Main: https://youtu.be/TMv_7XoDxzw

Backup: <https://youtu.be/ripltE5byLM>

Present: **Councillors:**

In Person:

**Cllr Anna Lynch in the Chair
Cllr Frank Baffour, Cllr Polly Billington,
Cllr Zoe Garbett, Cllr Gilbert Smyth,
Cllr Lynne Troughton (Vice-Chair) and
Cllr Sarah Young**

Virtually: Cllr Margaret Gordon

Officers:

Tracy Barnett (Head of Audit), Peter Gray (Governance Officer), Dawn Carter-McDonald (Director of Legal, Democratic and Electoral Services), Michael Sheffield (Corporate Head of Audit, Anti-Fraud and Risk Management), Matthew Powell (Corporate Risk Adviser), Ian Williams (Group Director of Finance and Corporate Resources)

Suresh Patel (Mazars - External Auditors)

1. **Apologies for absence**
 - 1.1 There were no apologies for absence.
2. **Declarations of Interest**
 - 2.1 There were no apologies for absence.
3. **Minutes of the previous meeting on 28 April 2022**

RESOLVED:

That the minutes of the meeting on 28 April 2022 be agreed as a true and accurate record of the proceedings.

Matters Arising

3.2 Councillor Smyth asked for an update on minute 8.5 relating to work carried out on the increase in interest rates. The Group Director of Finance and Corporate Resources reported that the work was ongoing as part of the medium term planning forecast.

4. Appointment of Chair and Vice Chair for the municipal year 2022/23

RESOLVED:

To note that Annual Council on 25 June 2022 appointed Councillor Anna Lynch and Councillor Lynne Troughton as Chair and Vice-Chair of the Audit Committee for the municipal year 2022/23

5. Audit Committee - Terms of Reference

5.1 The Chair introduced the report. In response to a question from Councillor Young, the Governance Officer confirmed that no changes had been made to the terms of reference.

5.2 The Group Director for Finance and Corporate Resources presented to the Committee, highlighting the following:

- Audit Committee and the governance framework;
- The core functions of the Audit committee;
- The need for a robust risk management framework;
- Internal control and governance;
- Financial Management. A key role of the Audit Committee is to approve the Annual Accounts;
- Internal Audit is an independent assurance function that may review any of the council's activities;
- Role of the External Auditors – Mazars;
- Current developments in External Audit;
- Details of training resources for Audit Committee members.

5.1 Councillor Troughton asked for clarification on the difficulties around recruiting auditors.

5.2 Suresh Patel (Mazars) told the Committee that these roles referred to were less attractive because the sector was heavily regulated and the difficulties related to both Local Government and the Corporate Sector.

RESOLVED:

To note the terms of reference.

6. Finance Update - Presentation

6.1 Ian Williams presented the finance update, highlighting the following:

General Fund Forecast 2021/22/ Forecast variance against budget (After reserves) - £4630m

2021/22 – General Fund Forecast

- Neighbourhoods and housing are forecasting a significant overspend of £2.9m of which £2m is COVID related;
- The forecast as at the end of February 2022 showed an overspend of £4.9m after the application of COVID-19, Social Care and the Cyber-attack;

2021/22 Housing Revenue Account (HRA) Position

- Forecast of a breakeven position on the HRA but there was a forecast overspend of £4.7m which included impact from COVID-19 of £3.2m;

Medium Term Financial Plan (MTFP)

- Balanced Budget for 2022/ 23 was agreed by Council in March 2022;
- The MTFP indicated a budget gap of between £14m and £29m for the next year;

Assumptions and Risks

- Risks around inflation, fairer funding, recovery from the cyber-attack, increase in demand for services and worsening economic position;

Budget Timeline

- The Council is legally required to balance the budget each year;
- Work on the impact of inflation was ongoing;

The London Picture

- High staff/ running costs. In particular, Leisure Centres were under much financial pressure;

Account Update

- 2020/21 Council and Pension Fund statement of accounts are substantially completed;
- Plan to publish the draft 2021/22 statement of accounts by the end of June.

6.2 Councillor Troughton asked if the overspend, referred to, related to one of costs that would not carry over into the next financial year

6.3 The Group Director of Finance and Corporate Resources reported that some costs were recurrent while others would require ongoing provision. Work was ongoing to support those who were in financial difficulties in their occupations. Further, there were costs arising from the cyber-attack. More detail on these costs and the location of overspends would be included in the Overall Financial Position to be submitted to Cabinet in July 2022.

6.4 Councillor Young asked if the SEN overspend was reflected in the financial figures presented.

6.5 The Group Director of Finance and Corporate Resources told the Committee that there were difficulties in funding SEN nationally. A deep dive had been carried out and a report produced. It was agreed to circulate this report.

Action: The Group Director of Finance and Corporate Resources

It was noted that SEN funding was included in the dedicated schools grant area and was not included in the figures presented.

6.6 Councillor Garbett asked for clarification on the £2m COVID-19 related spend.

- 6.7 The Group Director of Finance and Corporate Resources referred to the challenge of income lost by the Council as a result of the pandemic, in particular affecting the Leisure Service.
- 6.8 Councillor Gordon asked for clarification on how the fairer funding proposals would impact Hackney Council.
- 6.9 The Group Director of Finance and Corporate Resources told the Committee that fairer funding was a term given to a review of how funding is distributed to Local Authorities, calculated on a formula driven by factors such as population, deprivation, demographics and the cost of providing the service. The formula used was now considered to be dated and it was not expected that funding would increase significantly with the fear that increased resources would be allocated to the north-east of the country. Active lobbying to secure increased funding was carried out.
- 6.10 Councillor Chapman referred to the politically led agenda in this regard and reiterated that lobbying would continue in this area.
- 6.11 The Chair referred to the fact that when considering the budget and fairer funding worst case scenario should be considered. She asked that presentation slides be circulated to members prior to meetings.
- 6.12 Councillor Gordon asked how the current pressure on the HRA would impact on the Council's capital spending.
- 6.13 The Group Director of Finance and Corporate Resources reported that the HRA business plan was being reviewed to ensure that the Council was in a position to fund and maintain stock with the ability to invest in new homes and retrofit.
- 6.14 Councillor Smyth expressed concern at the financial forecast and asked what measures would be used to manage this position, in particular in the light of the challenge of inflation.
- 6.15 The Group Director of Finance and Corporate Resources referred to financial challenges arising from the current external factors. An experienced finance team existed in the Council and over the past months new planning arrangements were put in place to balance the budget for 2023/24. Work was being carried out with colleagues across London Councils to identify opportunities and lobby the government. The medium term financial plan was being reviewed with updates to Cabinet, Audit Committee, relevant chairs and members drop in sessions, to ensure effective engagement.
- 6.16 Councillor Billington asked what the available options were to the council given the new external drivers and how the impacts on residents would be ascertained. She asked if groundwork should be in place as some individuals can pay more.
- 6.17 Councillor Troughton asked what percentage of the General Fund was spent on salaries and estate. She asked how the current circumstance would impact planned programmes.

- 6.18 Councillor Young asked about the relationship between the cost of sustainable retro-fitting challenges and the new build programme.
- 6.19 Councillor Garbett stressed the need to consider the wellbeing of Council staff who in some cases were also residents, providing support together with the prioritisation of services that impact on residents.
- 6.20 The Director of Finance and Corporate Resources told the Committee that:
- In relation to inflation, the Council was working with advisers to ascertain the most accurate forecasts with work commissioned on where inflation was used as a proxy for change in relation to fees and charges and contracts being clear on whether there were any opportunities, for instance, in considering the possibility of renegotiating a contract. Consideration was given to the ability to collect any increase in rent and council tax. Work was ongoing with various forums including the Audit Committee and Scrutiny Commissions to properly understand any unintended consequences of decisions made. Work was ongoing on understanding the necessary decisions that would need to be made in relation to capital programmes and considering different ways of procuring given changes of circumstances. There was a need to be agile in this regard, including around retro-fitting, new homes and other capital programmes. It was noted that, with shifts in energy prices some business cases had changed with a need now to consider the Capital Programme in this regard;
 - Payroll was the biggest area of controllable expenditure and accounted for £200m expenditure including National Insurance and Employer Pensions contributions;
 - Much work was ongoing in relation to policy based budget setting. Slides on this would be shared with members of the Committee.

Action: The Director of Finance and Corporate Resources

- The Council recognised the contributions made by staff to its work. A Wellbeing Package was available and would be circulated to members of the Committee. Staff were supported and helped during the challenges of COVID-19.

Action: The Director of Finance and Corporate Resources

- 6.21 Councillor Gilbert stated that the Council had made a commitment to 'Fire and Re-Hire' and asked whether there were proposals to change this reconfiguration.
- 6.22 Councillor Gordon asked for further detail on policy led budget setting in relation to how it worked and considerations.
- 6.23 The Director of Finance and Corporate Resources told the Committee that:
- There were no proposals to change the 'Fire and Rehire' configuration. This related to contracts that may contain clauses on inflationary uplift, of which there were few in the council. Those contracts that contained these clauses were being reshaped;

- On policy led budget setting, areas of council expenditure had been identified together with inputs and outcomes. This could not sit alone from the development of the strategic plan and had to be embedded in transformation work, ensuring a balanced financial plan for the coming 3 years. Relevant Committees and Members would be updated on balancing the budget for 2023/14 and setting a framework for a medium term forecast through the current administration.

RESOLVED:

To note the finance update.

7. Corporate Risk Register

7.1 The Corporate Risk Adviser introduced the report updating the Committee on the current Corporate Risk Register of the Council as at June 2022. The report also identified how risks within the Council are identified and managed throughout the financial year and the approach taken to embedding risk management. The Corporate Risk Adviser highlighted the following:

- 2 additional risks on the register: the current cost of living crisis and the recruitment difficulties, particularly in the area of ICT;
- The pensions risk had been de-escalated to directorate level because of improvements with a new interface;
- The pandemic risk had fallen;
- The cyber-attack risk remained;
- Risks related to Council owned companies remain on the register;
- Other risks remained in place;
- Climate change remained a high risk;

7.2 Councillor Troughton referred to the positive initiative around the Single Income Maximising Service. She asked for clarification on mitigation in place to prevent fraud and stressed the need for a fraud risk. She asked whether there was a gateway to the service. Councillor Troughton asked what the Council's position was on staff vaccinations and keeping staff well.

7.3 The Head of Audit, Anti Fraud and Risk Management referred to the changes that Hackney had undergone as a result of the pandemic, the cyber-attack and the cost of living crisis. He confirmed Anti-Fraud involvement in new mechanisms for the delivery of support to residents, in terms of the design of services and the allocation of resources to deal with concerns identified once the new schemes are in place.

7.4 The Group Director of Finance and Corporate Resources stressed the importance the Single Income Maximisation Service and of residents getting all the support they can get. He stressed that teams worked closely to ensure that necessary arrangements are in place to avoid fraud. and that the approach that the council was taking benefited residents. He referred to the good work of the council's housing needs section in this area

7.5 Councillor Billington questioned the term 'temporary accommodation' as many people remained in this accommodation for long periods of time. She asked for clarification on the associated long term risks and whether numbers

were expected to rise and what mitigation was in place. Councillor Billington suggested a deep dive into climate change, in particular, in relation to flooding and mitigation. She confirmed that there had been presentations to the Scrutiny Committee on this matter but this was still at the early stages and there was a need for the Audit Committee to ensure that climate change was addressed in a more systematic way. The Group Director of Finance and Corporate Resources agreed to arrange a Member drop in session on this matter.

Action: Group Director of Finance and Corporate Resources

- 7.6 The Chair agreed that a climate change deep dive be discussed under the Audit Committee's work plan. She asked for clarification on whether 'temporary accommodation' was a statutory term. It was confirmed that this was a statutory term. The Group Director, Finance and Corporate Resources suggested a member drop-in session on temporary accommodation.
- 7.7 Councillor Young suggested that fuel poverty be a separate risk because of the relationship with climate change and sustainability and the government's definition of fuel poverty, allowing for risks to be assessed separately with different solutions. She asked about the ongoing impact of the cyber attack on enforcement actions within the Council, e.g, people receiving notices to quit. She asked whether this formed part of the risk register.
- 7.8 The Corporate Risk Adviser told the Committee that the Corporate Register was a strategic document and the other risk registers would contain more examples of sub risks. He agreed that fuel poverty could be considered as a separate risk, or a clear sub risk. He confirmed that the enforcement issues were being dealt with by the Strategic Director, Customers and Workplace.
- 7.9 The Group Director of Finance and Corporate Resources agreed to arrange a private session on the cyber attack for the committee. He said that any issues that arise around enforcement are triaged and after investigation it becomes clear that housing benefits is not always a material factor.

Action: Group Director of Finance and Corporate Resources

- 7.10 Councillor Garbett stressed the need to reach those most in need, ensuring that the council tax rebates are paid to those who need them and referred to the difficulties for those who do not have direct debit and can not access the internet. She stressed that residents should be made aware of changes to services and how to access them. Councillor Garbett stressed the importance of SEN funding and that the voices of children, carers and parents are included in the process. She asked about action taken to return children in care back to the Borough and referred to the high costs of these placements. Councillor Garbett referred to the need for a deep dive into climate change and considered that the likelihood rating for climate change should be higher. She asked about the cost of Hackney Light and Power and its ambitions.
- 7.11 The Corporate Risk Adviser confirmed that the Risk Register was reviewed on a quarterly basis and the ongoing likelihood of climate change should be higher.
- 7.12 The Group Director for Finance and Corporate Resources confirmed all the

direct debits accounts had been paid the rebate and work was on going on finalising ways of how residents who do not pay by direct debit can apply. Residents had been encouraged to sign up for direct debit as this facilitated faster payment and there had been significant uptake. The Council was now moving to paying the rebate to those who do not have direct debit. He referred to the reliance on software providers to provide the relevant updates on systems.

- 7.13 Councillor Gordon referred to the cyber-attack and the unknown risks. She stressed that the cyber-attack still impacted residents.

RESOLVED:

To note the report and the attached risk registers.

9 Internal Audit Annual Report

- 8.1 The Corporate Head of Audit, Anti-Fraud and Risk Management presented the report providing details of the performance of Internal Audit during 2021/22 and the areas of work undertaken, together with an opinion on the soundness of the control environment in place to minimise risk to the Council. The following were highlighted:

- Based on audit work carried out during the year it was clear that the Council Control Framework was found to be adequate, continuing to achieve the required level of assurance;
- Less audits had been carried out over the previous 2 years as a result of the pandemic and the cyber-attack;
- A number of audits had to be deferred because of the cyber-attack with the majority of the work rescheduled to the current year. Assurances had been drawn on previous work and other methods of assurance;
- All Key Performance Indicators had been met;
- There had been a low percentage of adverse audit opinions, comfortably within the previous year's threshold;
- There were similar levels of good audit opinion to previous years, albeit, based on a small sample;
- A high number of recommendations arose from audit work, fewer were higher priority recommendations;
- There was a risk based audit plan in place that determined what was considered but there were no direct comparisons year on year;
- There had been no significant changes to the Charter from the previous year.

- 8.2 Councillor Selman asked for clarification on the distinction between deferral and cancellation of audits.

- 8.3 The Corporate Head of Audit, Anti-Fraud and Risk Management confirmed that deferrals resulted from issues such as the cyber-attack while cancellations resulted from changes to services such that the audit was no longer necessary.

- 8.3 Councillor Smyth asked what lessons had been learned from the pandemic and the cyber-attack and what could be built on to ensure a better service.

- 8.4 The Corporate Head of Audit, Anti-Fraud and Risk Management confirmed that the Audit Plan was subject to change during the year and was a risk based plan with input from the Audit Committee and Senior Officers. A number of audits had been combined to consider the Council's response to the pandemic, providing positive feedback. It had not been possible to take these steps in relation to ICT, given current demands on the team. However, the current Audit Plan contained audits in the area of ICT.

RESOLVED:

1. To note the report of the Internal Audit's performance and opinion of the Council's framework of governance, risk management and internal control;
2. To approve the updated Internal Audit Charter and Strategy.

9. Fraud and Irregularity Annual Report 2021/22

- 9.1 The Corporate Head of Audit, Anti-Fraud and Risk Management presented the status report on the Annual Fraud and Irregularity 2021/22, highlighting the following:
- The volume of referrals of fraud matters had increased in the current year, in particular, blue badge and tenancy fraud;
 - In regard to No Recourse to Public Funds (NRPFs), there had been less applicants in the current year;
 - 34 housing units were recovered;
 - The service had recovered in excess of 900 properties which are provided to those on the temporary accommodation waiting list since 2010/11;
 - Blue Badge fraud is important because of the impact on disabled people.
- 9.2 Councillor Garbett asked if there was a permanent team for NRPFs. She asked what measures were taken to prevent Blue Badge fraud.
- 9.3 Councillor Young asked if the purpose of 'NRPFs' was to identify alternative sources of support in circumstances where there was no recourse to public funds and whether the team supported access to charitable support.
- 9.4 The Head of Audit, Anti-Fraud and Risk Management told the committee that the Audit Service worked in partnership with children services assisting in carrying out enquiries. He confirmed that the 'NRPFs' team was permanent. Funding for investigations was received each year. If support was available elsewhere, then it was not the Council's responsibility to provide support. In circumstances where there is no other support, the Council would assist, signposting to other services. The Council was proactive in the prevention of Blue Badge fraud. The parking enforcement office referred matters to the Audit team and ensured that misuse was targeted.
- 9.5 Councillor Selman asked for clarification on the decision to characterise NRPF as a fraud work stream and what was done to mitigate risk of this becoming a deterrent. She asked for clarification on the figures in relation to claims cancelled after a positive finding or due to those withdrawing from the process as a result of anxiety about verification.

- 9.6 Councillor Troughton asked if the Council utilised the Proceeds of Crime Act and employed Finance Intelligence Officers to support investigations.
- 9.7 The Head of Audit, Anti-Fraud and Risk Management advised that the overwhelming majority of NRPF results reported to the committee followed an investigation process. Only one case was withdrawn in the previous year following the applicant becoming aware of the level of checking involved in the process. He confirmed that the Audit Section made use of the skill set of the team to access information and systems that provide a fuller profile of an individual's circumstance when there were grounds to suspect that the information provided was not truthful. The fact that individuals were in a difficult situation was recognised. He confirmed that the council utilised the Proceeds of Crime Act when appropriate to support investigations. Further, the council employed financial investigators.
- 9.8 The Chair asked that NRPFs scenarios be presented to the committee to enable it to better understand the system in place.

Action: Corporate Head of Audit, Anti-Fraud and Risk Management

- 9.9 The Director of Legal and Governance told the committee that the assessments carried out by Adults and Social Care were carried out in a supportive and helpful way and were only referred to the Anti-fraud team when questions arose from the information and documentation provided by the individual.

RESOLVED:

To note the report

10. Work Programme

- 10.1 The Chair referred to the need for deep dives into areas of concern, including fuel poverty and cost of living.
- 10.2 The Group Director for Finance and Corporate Resources reported that regular updates on the cost of living crisis would be made to the Committee with a deep dive carried out in this area.

RESOLVED:

To note the report

11. Any other business that the Chair considers urgent

- 11.1 There was no other urgent business.

Meeting closed at 8:30pm

Chair: Councillor Anna Lynch

Wednesday 8 June 2022

Contact;
Peter Gray
Governance Services
peter.gray@hackney.gov.uk